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Chrono

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MEMORANDUM FOR: Associate Deputy Director for Intelligence

SUBJECT : Recipients of Briefing Book

1. The following officials of the Treasury Department are to receive single copies of the briefing book:

The Honorable William E. Simon
Secretary of the Treasury

Mr. Jack F. Bennett
Undersecretary for Monetary Affairs
Department of the Treasury

Mr. Gerald L. Parsky,
Executive Assistant to the Secretary
of the Treasury

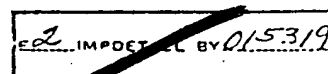
2. In addition 3 copies of the briefing material are to be transmitted to:

Mr. William Morell
Special Assistant to the Secretary
for National Security
Department of the Treasury

Attachment:
Briefing materials

6 (17 May 74)

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A Briefing Book.
for the
Fourth Session of the
US-USSR Commercial Commission

May 1974

CENTRAL INTELLIGENCE AGENCY

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Soviet Foreign Policy and Detente

Two long-term factors were paramount in inducing the Soviets to adopt a policy of detente with the West.

- The technological gap.
- Chinese hostility.

They remain of prime importance today and Soviet policy is aimed at:

- a successful summit in June;
- strengthening economic ties with the US, especially by involving US corporations in major Soviet development projects;
- progress in three major security negotiations -- SALT, the European Security Conference, and force reduction in Europe.

There has, however, been a lowering of Soviet expectations about the benefits of detente.

- US diplomatic successes and Soviet reverses in the Middle East have been a blow to Soviet prestige.
- Lack of progress on trade and credit concessions from the US has been sharply disappointing. In response, Jewish emigration to Israel has been cut back by over 25 percent this year.
- The President's political problems have given the Kremlin pause.

Soviet leaders still expect to reach new agreements with the President and they probably do not judge that his domestic difficulties are exploitable in negotiations. They are turning their attention to a broader spectrum of US political and business leaders to insure that progress on detente-related issues continues.

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CONTENTS

- I. Soviet Foreign Policy and Detente
- II. Internal Political and Economic Developments in the USSR
- III. Soviet Foreign Economic Policy Toward the West
- IV. Soviet Hard Currency Payments
- V. Grain Prospects in the USSR and Eastern Europe
- VI. Soviet Energy Strategy
- VII. Selected Biographies

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Internal Political and Economic Developments in the USSR

There are many uncertainties about Kremlin politics, but we do not expect major changes in the near term.

- Brezhnev maintains his preeminent position and there seems to be general agreement within the leadership on Soviet foreign and domestic policies.
- The economic recovery in 1973 after two lackluster years has been a boon.

There are, however, clouds on the political horizon.

- All of the top leaders are nearing 70 or have reached it; some are in poor health and change is inevitable.
- Productivity gains in the economy have been slow in coming.
- Soviet policy suffered a bad setback in Egypt, and political changes in the West (Pompidou and Brandt) have created uncertainties about the personal relationships Brezhnev has prized.
- The fundamental problem of how to square the requirements of domestic control with those of detente is unresolved.

Economic prospects are likewise mixed, and following a near record increase in 1973 GNP -- up 8 percent -- growth will slacken in 1974.

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- The spurt in GNP still left the goal of overtaking the US as far away as ever; the dollar gap between the national products of the two countries expanded, as it has in 9 of the past 10 years (see figure).
- Farm output will grow but by much less than in 1973. Industry may do better, in part because of a larger flow of raw materials from the farms.
- Continued shortfalls in meeting energy targets are likely, but they probably will not result in an industrial bottleneck.
- The Soviet foreign trade position should improve considerably because of substantially higher prices for raw material exports and reduced outlays for grain.

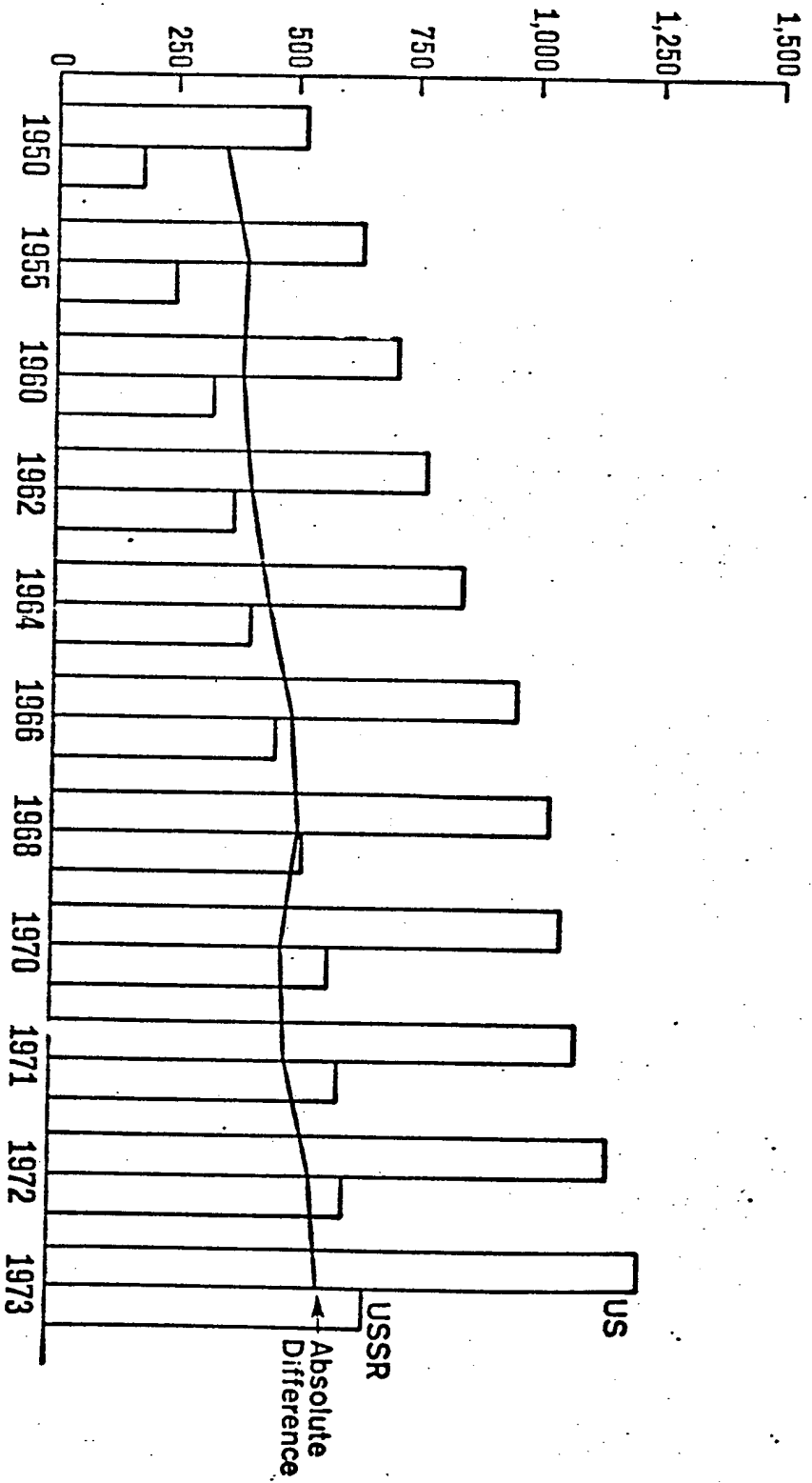
USSR: Post-Khrushchev Rates of Economic Growth

	Percent			
	Average 1965-70	1971	1972	1973
Gross national product	5.7	4.2	1.7	7.5
By producing sector				
Agriculture	4.7	0.3	-7.2	14.8
Industry	6.4	6.0	5.2	5.9
Other	6.0	5.5	4.9	4.6
By major end use				
Per capita consumption	5.7	3.4	0.9	3.3
Investment	7.5	8.2	7.6	4.8

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US-USSR: GNP

Billion 1972 US \$



Soviet Foreign Economic Policy Toward the West

The chief Soviet goal in trade with the West is to obtain equipment and technology to raise the level of Soviet industrial technology and to achieve production goals more rapidly than Communist resources permit. Lately the Soviet leadership has increasingly emphasized the value of Western technology to boost lagging productivity and to narrow the large and widening technological gap vis-a-vis the West.

- Soviet imports from the West have doubled since 1971 -- from almost \$3 billion to \$6 billion in 1973.
- New Soviet contracts for Western equipment increased from less than \$1 billion in 1971 to \$2.6 billion in 1973. (See Table)

Soviet policy has also emphasized cooperative agreements with Western governments and firms to acquire technology and capital.

- Cooperative ventures, mainly in resource development, have become a major Soviet vehicle for attracting Western investment.
- Long-term cooperation agreements with Western governments have encouraged similar agreements between the USSR and individual Western firms.

The US has become a major target in efforts to secure advanced technology, equipment, and other commodities.

- Soviet imports from the United States rose from \$150 million in 1971 to \$1.2 billion in 1973. Grain inflated the totals, but imports of equipment increased from \$60 million to \$200 million in the same period.

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- Soviet contracts for US equipment have increased and will keep imports from the US at high levels despite an expected decline in imports of grain.
- The US is seeking US capital, technology, and know-how to help develop Soviet resources, mainly gas and oil.
- S&T agreements have led to more than 2 dozen Soviet technology agreements with US firms.

Soviet Equipment Orders from Developed West,
1971-73

	Million US \$		
	<u>1971</u>	<u>1972</u>	<u>1973</u>
Total	850	1,695	2,600
US	240	320	450
W. Germany	145	370	490
France	80	480	425
Japan	140	135	205
Italy	65	165	625
UK	120	75	155
Other	60	150	250

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Soviet Hard Currency Payments

In the past decade the USSR has been unable to generate sufficient exports to finance growing imports from Western (largely hard currency) countries. (Table 1)

- Since 1965 deficits have been financed chiefly by credits. By 1971, long-term debt was \$2 billion. During that period, the Soviets rebuilt their depleted gold reserve, selling almost none.
- In 1972-73 Soviet hard currency deficits rose dramatically -- about \$1½ billion annually -- because of record imports of grain and equipment.
- Soviet gold reappeared in bullion markets and was used to finance about 40% of the 1972-1973 deficit. Credits took care of most of the rest.
- Soviet debt increased to about \$3.6 billion in 1973. (Table 2)
- To ease its debt burden and to generate exports, the Soviets have concluded a number of so-called cooperative ventures with Western firms which call for repayment of credits extended in the products developed by the venture.

The US has provided the Soviets with substantial credits since the May 1972 Summit.

- About \$500 million in long-term Eximbank credits.
- About \$500 million in long-term private credits.
- About \$500 million in 3-year CCC credits for grain.

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There has been a turnaround in the Soviet hard currency picture.

- High oil and raw material prices will increase Soviet exports substantially and grain imports will drop in 1974. An export surplus is expected in 1974 and probably in 1975.
- High gold prices provide an additional cushion. At \$150 an ounce, sales out of current production would earn the Soviets over \$1 billion in 1974 and even more in subsequent years.

However, long-term payments prospects are less favorable.

- Debt will grow if imports continue to increase.
- Total debt could rise to as much as \$10 billion by 1980.
- Declining oil exports by 1977 will reduce Soviet export earnings.
- An increasing share of the debt will be repaid by exports generated by cooperative ventures if current plans for ventures in oil, gas, timber, and coal are implemented.

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Table 1

USSR Hard Currency Trade Deficit a/

Million US \$			
<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1965	1,374	1,560	-186
1966	1,516	1,755	-238
1967	1,711	1,616	+95
1968	1,909	2,018	-109
1969	2,125	2,436	-311
1970	2,197	2,711	-514
1971	2,652	2,955	-303
1972	2,815	4,171	-1,357
1973 ^{b/}	4,300	5,700	-1,400
1974 ^{c/}	5,300	4,600	+700

a. Based on official Soviet data

b. Preliminary

c. Estimated

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Table 2

Schedule of Soviet Credit Drawings and Repayments from the Developed West

Year	Million US \$				
	<u>Credit Drawings</u>	<u>Payment to Interest</u>	<u>Payment to Principal</u>	<u>Net Credits</u>	<u>Current Debt</u>
1965	190	17	149	24	380
1966	275	20	150	105	505
1967	305	29	152	124	658
1968	510	38	217	255	951
1969	630	57	265	309	1316
1970	715	79	310	326	1722
1971	682	103	374	204	2029
1972	1030	122	451	457	2608
1973	1690	157	657	876	3641
1974	1410	220	858	332	4194

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Grain Prospects in the USSR and Eastern Europe

The outlook for the 1974 grain crop in Communist Europe is uncertain at this time. Bad weather slowed Soviet sowing operations in April, while rain in Eastern Europe in early May brought only marginal relief to drought-stricken crops there. The season is still early, however; much will depend on weather conditions over the next two months.

In the USSR:

- The pace of spring sowing operations quickened in early May, but sowing is still behind schedule. On the positive side, soil moisture is above average in the eastern part of the spring grain belt where sowing is about to begin. A successful spring sowing campaign is needed this year to help offset above-average winterkill losses of crops sown last fall.
- The leadership has already issued guidelines for the harvest, which begins in July and continues into October. As in past years, an all-out effort is to be made to assure adequate manpower and machinery for the harvest.

In Eastern Europe:

- A threatened drought was forestalled by rains in early May, enhancing the grain outlook in Hungary and Czechoslovakia. The rains brought only marginal relief to the other East European countries.
- In general, soil moisture conditions are still below normal.

Under these conditions, a successful grain harvest in Communist Europe this year will be heavily dependent on favorable weather during the coming weeks. In any event, unless weather conditions improve dramatically, the region is likely to be a net importer of grain during FY 75.

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Soviet Energy Strategy

The USSR is and will continue to be self-sufficient in energy for the foreseeable future. They expect production to grow by about 5% per year through 1990, a rate slightly less than was achieved in the past decade.

- In 1973, oil and gas accounted for nearly 58% of the primary energy consumed, coal 35%, peat, fuelwood, and oil shale 4%, hydroelectric power 3%, and nuclear power less than 1/2%.
- During the next decade the share of oil and gas in energy use probably will increase slightly, that of coal and hydroelectric power will decline, while nuclear power increases somewhat.

Oil fields in the Urals-Volga and other older producing regions are being depleted more rapidly than expected and rates of growth in production are beginning to slow down. In 1972 and 1973, annual oil production goals were not attained for the first time since World War II.

- Any significant increases in output of oil and gas will come from new fields being developed in Siberia and Central Asia (see map).
- Permafrost and the inhospitable climate create drilling, production, and pipeline problems in Siberia.
- In Central Asia, deep structures add to drilling problems, the high paraffinic content of the oil necessitates heating of pipelines, and the gas contains hydrogen sulfide that must be removed to avoid corrosion of pipelines.

The USSR has been a net exporter of oil since 1955. In 1973 it exported about 2.4 million bpd of crude oil and petroleum products.

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- Of these exports, 1 million bpd went to non-Communist countries (primarily to Western Europe) and 1.4 million to other Communist countries (mostly Eastern Europe).
- The USSR procured about 260,000 bpd from the Middle East and Africa, mostly for re-export to Eastern Europe on Soviet account.
- Given the declining rates of increase in production from older fields and the problems in developing new ones, it is doubtful that by the end of the decade the USSR can simultaneously satisfy the rising demands of its own economy, continue to meet most of Eastern Europe's needs, and increase exports of oil to the West.
- To achieve these objectives, it may need to import sizable amounts of oil from the Middle East and Africa in the 1980s.

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Selected Biographies

The following biographies include those Soviet officials who are likely to be members of the Soviet delegation to the fourth session of the US-USSR Commercial Commission.

Alkhimov, Vladimir Sergeyevich

Kuz'min, Mikhail Romanovich

Manzhulo, Aleksey Nikolayevich

Nikitkin, Nikolay Vasil'yevich

Spandar'yan, Viktor Borisovich

Zinov'yev, Nikolay Vasil'yevich

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